

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02 CIEP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 PA-02
PRS-01 IO-13 /110 W
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R 181429Z FEB 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 5748
DEPARTMENT TREASURY
INFO AMCONSUL HAMBURG
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION OECD PARIS
USMISSION EC BRUSSELS

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCE MINISTER APEL ON GERMAN ECONOMIC
AND FISCAL POLICIES

1. SUMMARY: IN A SPEECH PREPARED FOR DELIVERY
AT THE AMERICA HOUSE IN HAMBURG ON FEBRUARY 17,
FINANCE MINISTER APEL REVIEWS GERMAN ECONOMIC
POLICY (THE HANDELSBLATT HEADLINES THE SPEECH,
"APEL PATS HIMSELF ON THE BACK") AND DEFENDS THE
GERMAN POLICY STANCE AGAINST CRITICISM FROM ABROAD.
END SUMMARY

2. WE ARE SUMMARIZING AND FREELY TRANSLATING BELOW
THE PORTIONS OF APEL'S SPEECH PARTICULARLY RELEVANT
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TO THE CURRENT INTERNATIONAL DISCUSSIONS.

3. APEL BEGAN HIS DISCUSSION BY ACKNOWLEDGING THAT
INTERNATIONAL ECONOMIC DEVELOPMENTS ARE NO LONGER A
GIVEN FACTOR ON WHICH GERMAN DOMESTIC ECONOMIC POLICIES
CAN BASE THEMSELVES. INSTEAD GERMAN ECONOMIC AND
BUSINESS CYCLE POLICIES, AS WELL AS FINANCIAL

ASSISTANCE TO OTHER COUNTRIES, SIGNIFICANTLY AFFECT THE INTERNATIONAL ECONOMIC SITUATION. FOR THIS REASON, APEL CONTINUED, GERMAN FINANCIAL AND ECONOMIC POLICIES HAVE BECOME A MATTER OF INTERNATIONAL INTEREST. IT IS ALSO UNAVOIDABLE THAT INTERNATIONAL EXPECTATIONS WILL BE DIRECTED IN PARTICULAR TOWARD THOSE COUNTRIES, INCLUDING THE FEDERAL REPUBLIC, WHOSE RESERVE POSITION APPEARS TO BE THE STRONGEST.

4. IN THIS CONNECTION, APEL CONTINUED, THE ECONOMIC PROGRAM OF THE NEW AMERICAN PRESIDENT IS OFTEN HELD UP AS AN EXAMPLE FOR THE FEDERAL REPUBLIC AND PARTICULARLY COMPARED WITH THE GERMAN PROGRAM OF FUTURE PUBLIC INVESTMENTS. APEL STRESSED THAT SUCH A COMPARISON IS NOT VERY MEANINGFUL BECAUSE IT NEGLECTS THE FACT THAT THE FEDERAL REPUBLIC HAS BEEN ACTIVE IN STIMULATING ITS ECONOMY FOR A LONG TIME AND MUCH WHICH IS CONTAINED IN THE AMERICAN PROGRAM HAS ALREADY BEEN DONE IN THE FEDERAL REPUBLIC.

5. APEL CONTINUED, BEGIN QUOTE, THE AMERICAN PROGRAM CONTAINS TAX RELIEF. WE ALREADY HAVE MASSIVELY REDUCED THE TAX (BURDEN) ON OUR CITIZENS WITH THE TAX REFORM OF 1975; WE HAVE (ALREADY) GIVEN AN INVESTMENT PREMIUM; WE HAVE STARTED THE FIRST COUNTERCYCLICAL PROGRAM WHEN OTHER COUNTRIES WERE STILL FOLLOWING RESTRICTIVE POLICIES. BEYOND THAT WE HAVE ACCEPTED HIGH BUDGET DEFICITS TO SUPPORT THE ECONOMY. THE AMERICAN PROGRAM FORESEES UNCLASSIFIED

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ADDITIONAL HIRING OF PUBLIC SERVANTS -- WELL, WE IN THE FEDERATION WILL NOT DO THIS, EVEN THOUGH THE LAENDER WILL NATURALLY STILL HAVE A MODERATE EXPANSION OF THEIR EMPLOYEES PARTICULARLY IN THE EDUCATIONAL AREA. THE AMERICAN PROGRAM FORESEES MEASURES TO INCREASE EMPLOYMENT. WE HAVE BEEN ACTIVE IN THIS AREA FOR A LONG TIME. IN A DM 450 MILLION PROGRAM WE CURRENTLY ARE AIDING PARTICULAR PROBLEM AREAS IN THE EMPLOYMENT FIELD, FOR EXAMPLE, THROUGH MOBILITY AND INTEGRATION HELP, HELP FOR THE EMPLOYMENT OF DISABLED PERSONS, AND MEASURES IN THE FIELDS OF TRAINING AND THE CREATION OF WORKING PLACES.

6. QUOTE. THE AMERICAN PROGRAM FINALLY ENVISAGES \$2 BILLION FOR PUBLIC INFRASTRUCTURE INVESTMENTS. HERE OUR DM 10-12 BILLION PROGRAM OF FUTURE INVESTMENTS DOES NOT LOOK SO BAD BY COMPARISON.

7. QUOTE. THE PUBLIC BUDGETS OF THE FEDERAL REPUBLIC

HOWEVER ALSO HAVE AN ANTICYCLICAL EFFECT IN THE
INTERNATIONAL AREA THROUGH THE FUNDS WHICH WE

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TRANSFER, FOR EXAMPLE, TO THE EUROPEAN ECONOMIC
COMMUNITY. THE TAX RECEIPTS WHICH WE DIVERT FOR
THIS PURPOSE CANNOT BE SPENT ONCE MORE ON THE
DOMESTIC ECONOMY. THAT WHICH WE TRANSFER TO "EUROPE"
IS IN ITS VOLUME QUITE COMPARABLE TO AN ANTICYCLICAL
PROGRAM. DURING 1977 IT WILL BE AFTER ALL DM 8.5
BILLION OF GERMAN TAX RECEIPTS, OF WHICH ONLY ABOUT
ONE-HALF COMES BACK INTO THE FEDERAL REPUBLIC, AND
THUS CONSTITUTES A REAL HELP FOR OUR NEIGHBORS.

8. QUOTE. ABOVE ALL, ONE HAS TO TAKE INTO
CONSIDERATION THAT WE -- AND THAT IS THE INTERNATIONAL
SIDE OF OUR ANTICYCLICAL PROGRAM -- HAVE A POSITIVE
EFFECT ON THE DEVELOPMENT OF THE WORLD ECONOMY AT
THE LATEST SINCE 1975 THROUGH OUR MEASURES TO ASSURE
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DOMESTIC DEMAND. IN 1975 WE HAVE INCREASED OUR IMPORTS IN REAL TERMS BY 2.6 PERCENT DESPITE A REDUCTION OF OUR GNP (MINUS 3.2 PERCENT IN REAL TERMS) AND A REDUCTION OF THE TOTAL VOLUME OF WORLD TRADE (BY MINUS 4.5 PERCENT IN REAL TERMS). IN 1976 OUR IMPORTS HAVE INCREASED BY APPROXIMATELY 16 PERCENT (AND THUS ARE CONSIDERABLY STRONGER THAN OUR EXPORTS WHICH INCREASED BY 12 PERCENT). WE EXPECT THAT DURING 1977 THE INCREASE IN OUR IMPORTS WILL AGAIN BE STRONGER THAN THAT IN OUR EXPORTS. THE STIMULATIVE EFFECT ON OUR PARTNER COUNTRIES WHICH IS CAUSED THROUGH THIS IS THE RESULT OF THE CONSISTENT POLICY OF CYCLICAL STIMULATION WHICH WE HAVE FOLLOWED DURING THE LAST YEARS. END QUOTE.

9. APEL CONTINUED BY WARNING AGAINST AN EXPANSION OF THE PLANNED GERMAN PUBLIC INVESTMENT PROGRAM SINCE AN UNDUE INCREASE IN PUBLIC INVESTMENT PROGRAMS WHICH HAVE TO BE FINANCED THROUGH THE CAPITAL MARKETS WOULD INEVITABLY LEAD TO AN INCREASE OF INTEREST RATES. SUCH AN INCREASE OF INTEREST RATES IN TURN WOULD TEND TO DECREASE PRIVATE INVESTMENT AND AT THE SAME TIME CAUSE UNDESIRABLE INFLOWS OF FOREIGN EXCHANGE. IT THUS COULD LEAD TO A TURNAROUND OF THE WORLDWIDE TREND OF INTEREST RATES. THEREFORE A POLICY WHICH DOES NOT HINDER THE CURRENT TREND TOWARD LOWER INTEREST RATES IS DESIRABLE. IN THIS CONNECTION APEL MENTIONED THAT THE NEW INDEBTEDNESS OF ALL PUBLIC BUDGETS DURING 1977 WILL AMOUNT TO AT LEAST 4 PERCENT OF GNP IN GERMANY WHILE IN THE UNITED STATES THE COMPARABLE FIGURE IS 2.5 PERCENT OF GNP.

10. APEL CONCLUDED THIS PART OF HIS SPEECH BY SAYING, QUOTE WE DON'T NEED TO PANIC (UNS VERUECKT MACHEN LASSEN) ... (WHILE) WE MUST PROVIDE A CONSIDERABLY STRONGER IMPULSE (TO THE INTERNATIONAL UNCLASSIFIED

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ECONOMY) THAN IN (THE LAST RECESSION OF) 1966/67 AND (WHILE) WE MUST HELP TO CARRY THE SHARE OF THE PROBLEM COUNTRIES, I AM RELATIVELY OPTIMISTIC CONCERNING THE DEVELOPMENT OF THE WORLD ECONOMY. UNQUOTE

11. IN REVIEWING THE PAST GERMAN PROGRAMS OF ECONOMIC STIMULATION FROM FEBRUARY 1974 TO AUGUST

1975, APEL CONCLUDED THAT THEY RESULTED IN
DM 17 BILLION OF ADDITIONAL BUDGET EXPENDITURES OR
LESSENERED BUDGET RECEIPTS AND HAD A DIRECT DEMAND
CREATING EFFECT OF DM 30 BILLION AND AN
ADDITIONAL INDIRECT EFFECT OF ROUGHLY DM 20 BILLION.
INCLUDING THE EMPLOYMENT PROGRAM OF NOVEMBER 1976
HE ESTIMATED THAT THESE PUBLIC PROGRAMS "ASSURED"
APPROXIMATELY 700,000 WORKING PLACES.
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